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An Economical Analysis on the Lack of Credit Standing in On-line Transactions of Sports Goods

Hong-xia Ma*

College of Economics and Trade, Zhongzhou University, Zhengzhou, 450044, China

Abstract

With the development of Internet and sports industries, on-line transactions of sports goods will become an important way to sell the sports goods. However, credit standing is a problem that can not be ignored. Beginning from the analysis of the types and features of sports goods, this paper categorizes the online transactions of sports goods, talks about various problems existing in each category, and explains the reasons with economical theories. On the above basis, the paper puts forward the countermeasures and suggestions to solve these problems.

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1. Introduction

With the rapid development of Internet, network plays an increasingly an increasingly important role as a trading platform. At the very beginning, people knew little about internet. Therefore, they did not trust it. But nowadays network being an important trading platform has been widely accepted, and online transactions are also growing very rapidly. Actually, online transaction has become an indispensable part of people's daily life and work. However, credit problem has always plagued every subject and object of online transactions.

Sports goods industry is one of the industries with the greatest development potential. After joining WTO, Chinese sports goods industry has been among the world's top few with an amount of 20 billion U.S. dollars. Moreover, it is increasing progressively by 15%^[1]. Chinese sports goods industry is characterized by large output, widespread trade, a great number of enterprises of small scale, trade-based production and lack of brands.

From these characteristics, it is easily seen that sales of sports goods is the most important in the

* Hongxia Ma¹, Master degree and associate professor, the economic and trading college of Zhongzhou University

development of sports goods industry while the rapid development of the internet provides it with an effective way to make it. However, due to the special attributes of sports goods as well as the multi-agent nature of the production of sports goods, short-term online transactions happen so often that they cause crisis of credit problem which becomes a bottleneck restricting online transactions of sports goods. This paper will analyze the causes of lack of credit standing in online transaction of sports goods from an economical point of view and offer targeted recommendations to promote a healthy development of online transactions of sports goods.

2. Categories of sports goods

In order to solve the credit problem of online transactions of sports goods, the attributes of sports goods should be analyzed first and clarify what is sports goods.

The term “sports goods” is nothing new. But when asked what it is specifically, people do not have a shared definition. From its production and application, it is something for sports, for consumption, and for special purpose. Therefore, sports goods is goods specially designed for sports. It can be categorized into different types which have their own special properties.

From the perspective of athletic competition, sports goods fall into two categories: sub-competitive sports goods and non-competitive sports goods. The former is applied to regular and formal games. It must meet certain standards and rules, as well as be supervised and examined by quality supervision departments and professional associations of sports. The later is for the body-building of the public or the needs of some schools. The general specifications or standards of this kind of product are usually less demanding. It includes various informal sports, emerging sports and non-stereotyped items, or even substitutes for it.

From the perspective of the application of sports goods, it can be divided into sports equipment, sports apparel and accessories. Sports equipment refers to equipments for competition, training, body-building and entertainments used in the process of sports, including competition equipment, training equipment, body-building equipment, rehabilitation equipment, national sports equipment, entertaining sports equipment and scientific research test equipment. Sports apparel refers the sportswear and equipment of human body while doing sports, including sporting clothes, shoes, various protective gears, etc. used directly in the sports, as well as clothes designed for accepting the award, casual wear, sports and casual shoes, and sports bags and cases, etc. used indirectly in the sports. Accessories refer to a variety of items used indirectly, including sports drinks, sports nutrition, sports awards, and sports memorabilia^[2].

From the above classification, it is clearly seen that different sports goods has different ways of transactions. Sports facilities and equipment, sports apparel and accessories used in competition need specialized customization and should be ordered directly by the general sports departments to the factory. Sports equipment, sports apparel and accessories for non-competition can be manufactured because the specification for this kind of product is not very stringent and the purchase departments can buy them at any time. See Table I:

Table 1 category of online transactions of sports goods

Function Competition	Sports equipment	Sports apparel	accessories
Sports goods for competition	Specialized , ordered B2G Such as profession basketball stand and football	Specialized, ordered B2G Such as sportswear of athletes of Olympic Games	Specialized, ordered B2G nutrition and drinks for athletes during sports competition should be ordered specially to avoid harmful materials

	goal.		
Sports goods for non-competition	At random, manufacture B2O,B2C,C2C,C2O.such as basketball or football bought by school or individual on line.	At random, manufacture B2O,B2C,C2C,C2O.such as sportswear and sports shoes bought by school or individual on line.	At random, manufacture B2O,B2C,C2C,C2O.such as nutrition and awards bought by school or individual on line.

Note; In China, sports department is part of the government, so it is represented by G(Government),schools and other institutions are called organization O(Organization); B(Business); C (Customers)

3. Credit Status of Online Transactions of Sports Goods

The rapid development and proliferation of network have brought about great changes to the interactions between enterprises as well as enterprise and consumers. More and more businesses use the Internet to transmit information and distribute products. In China, Internet users are increasing every year. The 24th China Internet Development Statistics Report released by China Internet Network Information Center (cnnic) on July 16, 2009 shows that by June 30th Internet users has reached 338 million with an increase of 13.4 percent compared with the end of the year 2008. In six months, 40 million new Internet users appeared. Moreover, the largest group of Internet users is still students who are the main consumers of sports goods. Therefore, the prospect for online sales of sports goods is very optimistic.

But the current situation of online transactions of sports goods is not satisfying. Examining goods sold on line, Sports goods are quite few. The most important reason lies in the credit problem which is widespread. Compared with general items, the credit problem of sports goods is more serious, which is doomed by the characteristics of sports goods.

Market-driven economy is based on credit. The principle of honesty and credit standing is the soul and foundation of the market mechanism. In the Internet realm, because both parties of the transaction are invisible to each other, the credit standing becomes even more important. However, the current credit status of online transactions of sports goods in China examined, lack of credit standing becomes obvious. First of all, fake and shoddy goods fill the online market. Secondly, lack of credit standing is quite serious for every party of the transactions. Last but not least, false information and advertisement are everywhere. Thus, credit standing has gradually become extremely scarce resource in online transactions. Lack of credit standing has become the key problem which decides whether online transactions of sports goods will develop healthily.

3.1 The Main Problems of Online Transactions of Sports Goods

Because of a large variety of products and a wide range of parties of online transactions of sports goods, the existing problems are very prominent. Online credit deficiencies include lack of credit standing of the government, the organizations, the enterprise and the consumers. According to the subjects involved, they fall into four categories: credit deficiency of initiative subject, passive subject, initiative object and passive object. Credit deficiency of initiative subject means that the seller deliberately does something leading to the lack of credit standing. Credit deficiency of passive subject means that the seller causes the lack of credit standing due to objective reasons or without knowing the truth. Credit deficiency

of initiative object means that the buyer deliberately does something leading to the lack of credit standing. Credit deficiency of passive object means that the buyer causes the lack of credit standing due to objective reasons or without knowing the truth. See Table 2 :

Table 2 types of credit deficiency of parties of transactions

Subject Object	Government(G)	Organization(O)	Consumer(C)
Business(B)	B2G, Credit deficiency of initiative subject, passive object and initiative object	B2O, Credit deficiency of initiative subject, passive object and initiative object	B2C, Credit deficiency of initiative subject, passive subject, initiative object and passive object
Consumer(C)	Not purchase form individual because sports goods needed by government(competitive sports institutions) are usually competitive	C2O, Credit deficiency of passive subject, initiative subjective, initiative subject, and passive object	C2C, Credit deficiency of passive object, initiative subject, initiative object and passive object

3.2 Reasons of Credit Deficiency in Online Transactions of Sports goods

Reasons of above credit deficiencies are very complicated. Some are initiative while some are passive. Government or organizations are dominant buyers. Therefore they may cause credit deficiency deliberately. Businesses and individuals may also cause credit deficiency driven by interests. The paper will illustrate the four kinds of credit deficiencies in the following table. See Table III :

Table 3 reasons of credit deficiency

Varieties	Reasons of Credit Deficiency
Initiative subject	B2G, B2O, B2C, C2O, C2C. Businesses or individuals may cause credit deficiency driven by interests. For example, Businesses produce fake products. Individuals sell fake products. Individuals spread false information. Individuals mislead incomplete transactions.
Passive subject	B2C, C2O, C2C. Businesses cause credit deficiency affected by fake products or false websites. Individuals sell fake products without knowing the truth. Credit deficiency caused by the mistakes of the third party.
Initiative object	B2G, B2O, B2C, C2O, C2C. In the buyers market, government or organizations are especially dominant. They cause credit deficiency by postponing payment for goods deliberately. Individual buyers cause credit deficiency by intentionally generate transaction repudiation acts, for example they deny payments by making use the third party
Passive object	B2G, B2O, B2C, B2O, C2C. Credit deficiency caused by the finance department of government or organization. Credit deficiency caused by individuals because of the third party or mismatching information

4. Analysis of Current Credit Deficiency from the Prospective of Economics

On the basis of the above analysis of credit deficiency, the following part of the paper will analyze credit deficiency of government or organization, credit deficiency caused by the third party from the prospective of game. It will also analyze the economical motive of credit deficiency as well and put forward some strategies.

4.1 Cost-benefit Analysis

Credit deficiency of government or organization can be divided into two kinds: initiative credit deficiency and passive credit deficiency. Initiative credit deficiency takes place when government or organizations are dominant buyers who despise business or individual sellers. It can be specified to certain people or certain institutions. For example, when government or organizations buy sports goods, the task is usually undertaken by some specific people or some specific institutions who may make use of their status and deliberately postpone the payments of the goods rather than paying for it. The specific institutions taking the responsibility may also cause credit deficiency passively due to efficiency or institutional reasons. Credit deficiency caused by the third party may be due to the damage or loss of goods caused by the third party logistics and distribution employees in the delivery of goods, which force both sellers and buyers to encounter credit deficiency. All the above problems exist because there is no effective punishment while individuals are driven by interests.

The basis assumption of economics is the economic man assumption. On this basis, any rational economic man should meet the following standards while making decisions: benefits should out-weight the cost. Whether an economic individual has credit standing fundamentally depends on the rational judgments about their cost and benefit in the existing system. Government or organization as well as distribution staff of distributing company will not be punished for misconducts. Here, the paper will make a list of the cost and revenue model of dishonest behavior, and make a further analysis of this process.

$$E(W) = (A+B+C)P + (M+S)(1-P)$$

Here, $E(W)$ stands for expected wealth in all. P stands for probability of dishonest behavior being found. A stands for financial punishment after the dishonest behavior being found. B stands for other punishments (such as demotion, dismissal, etc.). C stands for psychological costs because of the moral condemnation. M stands for money got while dishonest behavior not being found. S stands for self-satisfaction with additional benefits got by making use of power. A , B , C indicates that the cost is negative.

If $E(W) > 0$, the parties believe that the expected benefits of dishonesty out-weight expected cost. Therefore, they choose to be dishonest.

If $E(W) < 0$, the parties believe that the expected costs of dishonesty out-weight expected benefits. Therefore, they will not choose to be dishonest.

If $E(W) = 0$, the parties believe that the expected costs of dishonesty equal expected benefits. Therefore, it makes no difference to be honest or dishonest.

From the model, the inner incentive for credit deficiency is clearly seen. It is decided by the psychological satisfaction (S) with addition economical benefits and the probability (P) of being found. The former S forms a positive correlation with the incentive while the later forms a negative correlation with the incentive. Therefore, when S and M are relatively greater and P is relatively small---that is, the community has not established rules to encourage honesty and punish dishonesty, and benefits brought about by being dishonest are much more than the costs---it is much easier for economic parties to make use of the power and be dishonest to run after the maximum benefits in the name of government^[3].

4.2 Analysis of Credit Deficiency from the Prospective of Game

In the market-driven economy, an economy subject, as an economic man, is bound to choose to be honest or not according to his own utility function. This is a process of game which holds the idea that each party of the game will always choose his own optimal strategy from his own point of view and form a Nash equilibrium.

First, the paper applies Prisoner Dilemma Mode to the analysis of the strategic choice to be honest or not of an economic man in an one-time game. (See the falling Figure) In an one-time game, the two parties of a transaction have no confidence in a long-term cooperation. Moreover, it is impossible for them to figure out the other's strategy. At this point, if one party is honest while the other is not and the dishonest party can get even more benefits than he will get when both parties are honest, the honest party must suffered a great loss. (See II or III) Therefore, when both parties comply with commitments, honesty is beneficial, but dishonesty means even more excessive profits. When the other party is dishonest, honesty means great loss while dishonesty may avoid losses. In conclusion, whether the other party is honest or not, dishonesty can always bring greater profits to the dishonest party or avoid losses. Choosing to be dishonest is to run after maximum profits. The result of the game must be IV. So for one-time game, commitment to be honest is not trustworthy. (Honesty, honesty) can not constitute a set of equilibrium strategies. At this point the result of the game must be IV, i.e. (dishonesty, dishonesty).

		A ⁺	
		Honest	Dishonest ₁
B	Honest ⁺	I (10, 10) ₁	II (7, 12) ₁
	Dishonest ⁺	III (12, 7) ₁	IV (8, 8) ₁

Figure Game Matrix₁

Secondly, this paper will investigate into repeated games. For example, the game begins with A's breaking the contract. In the next round of the transaction, because B knows the strategy of A and does not trust A, B may refuse A, or add more conditions, or even treat A tooth for tooth by adopting dishonest strategy. In the repeated game, A is punished for being dishonest. A will get short-term interests at the price of long-term interests. Apparently, in order to get the long-term interests, dishonesty is no longer a better choice while honesty is a much rational strategy. Generally speaking, the more the game repeated, the more honest the parties will be. At this point, the result of the game must be I, i.e. (honesty, honesty) constitutes a Nash Equilibrium and realizes the Pareto improvement from (dishonesty, dishonesty) to (honesty, honesty) [4].

5. Strategies and Suggestions

The paper puts forward the following strategies and suggestions to the above problems:

First, make every effort to correct the information asymmetry and reduce the information gap between businesses and consumers. The biggest obstacle between businesses and consumers is the information asymmetry. Therefore, the theories and methods of information asymmetry in information economics may be applied here. By bridging the information gap between businesses and consumers and realizing the balance and symmetry of information between each other, illegal businesses which engage in fraud and dishonest acts will lose its camouflage and can not exist in the market.

Secondly, perfect the legal system and increase the penalties for dishonest behavior. The main reason why acts of dishonesty are so rampant is that the punishment for dishonesty of businesses is so weak that it is not sufficient to eliminate the impulses of defying the law to gain great profits. Therefore, the credit system must be rebuilt and punishment for dishonest fraudulent acts should be increased.

Thirdly, establish a sound credit rating system between businesses and individuals. Through government and market-oriented cultivation of specialized rating agencies, a comprehensive, objective and fair businesses and individual credit files may be established. Certain rules about the records, movement, management, rating, revealing and using of the files, as well as the duty and responsibility of rating units and units being rated should be clearly defined^[6].

Lastly, strengthen the management of the Internet. While applying for a website, the Ministry of Information Industry should pay attention to check the legality of the site or the appearance of fake websites in order to shelter consumers from being deceived.

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